

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00 EB-11

FMC-04 INR-11 NSAE-00 RSC-01 CG-00 COA-02 DLOS-07

SWF-02 NSCE-00 L-03 H-03 PA-04 PRS-01 USIA-15 SP-03

AID-20 NSC-07 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 DRC-01 EUR-25 /168 W
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E.O. 11652: N/A

TAGS: EPIN ETRD CH

SUBJ: PRC TRANSPORTATION TAX ON FOREIGN SHIPPING

REF: HK 7505

SUMMARY: A HONG KONG-BASED PRC OFFICIAL HAS INFORMED THE CONGEN THAT THE RECENT PRC TRANSPORTATION TAX ON FOREIGN SHIPPING IS AN ATTEMPT TO BRING ITS SHIPPING PRACTICES IN LINE WITH INTERNATIONAL PRACTICE. HE SAID THAT THE APPLICATION OF THE TAX WILL BE MADE ON THE BASIS OF WHETHER THE GOODS ARE BOUGHT CIF OR FOB. A DANISH SHIPPING COMPANY OFFICIAL STATED THAT THE PRC HAS INFORMED HIS COMPANY IT IS EXEMPT FROM THE TAX. END SUMMARY.

1. IN RESPONSE TO OUR QUERY, AN OFFICIAL OF THE CHINA RESOURCES COMPANY (CRC), THE HONG KONG-BASED GENERAL AGENCY FOR THE PRC'S FOREIGN TRADE CORPORATIONS, HAS SUPPLIED ADDITIONAL INFORMATION REGARDING THE NEW PRC
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TRANSPORTATION TAX ON FOREIGN SHIPPING (REFTEL). DURING

A COURTESY CALL ON CRC ASSISTANT GENERAL MANAGER MAI WEN-LAN AND T. CHEN LAST WEEK, CONGEN OFFICERS INQUIRED ABOUT THE RECENT PRC TAX ON FOREIGN SHIPPING. MAI AND CHEN WERE UNABLE TO COMMENT ON THE TAX AT THE TIME, BUT OFFERED TO ASK THEIR ASSOCIATES FROM THE FAR EAST ENTERPRISE COMPANY (FARENCO), WHICH IS THE PRC-OWNED SHIPPING COMPANY IN HONG KONG.

2. CHEN TELEPHONED THIS WEEK TO SAY THAT ACCORDING TO FARENCO, THE OBJECT OF THE TAX IS TO BRING PRC SHIPPING PRACTICES IN LINE WITH INTERNATIONAL PRACTICE. HE SAID THAT A SHIPPING TAX OF THIS NATURE IS COMMON IN MANY COUNTRIES, MENTIONING EUROPE AND LATIN AMERICA AS AREAS WHERE IT IS COMMON PRACTICE. HE POINTED OUT THAT IN LATIN AMERICA SIMILAR TAXES OF NINE TO TEN PER CENT ARE NON UNCOMMON AND THAT BY THIS STANDARD, THE PRC'S TAX OF THREE PER CENT IS NOT HIGH. ADDING A NEW WRINKLE, HE SAID THAT THE INCIDENCE OF THE TAX WOULD FALL ONLY ON THOSE WHO BOUGHT CHINESE GOODS FOB. GOODS SOLD CIF, WHERE THE SHIPPING WAS ARRANGED BY THE PRC, WOULD NATURALLY NOT BE TAXED. CHEN DID NOT, HOWEVER, MENTION THE ESCAPE CLAUSE BY WHICH SHIPS OF COUNTRIES HAVING BILATERAL SHIPPING AGREEMENTS WITH THE PRC WOULD NOT HAVE TO PAY THE TAX, IF THE AGREEMENT CONTAINED PROVISIONS FOR RECIPROCAL EXEMPTION FROM SUCH TAXES.

3. THIS IS THE FIRST COMMENT WE KNOW OF BY A PRC OFFICIAL EXPLAINING SOME OF THE BACKGROUND BEHIND THE TAX. BRINGING ITS PRACTICES MORE IN LINE WITH WHAT ARE SAID TO BE INTERNATIONAL STANDARDS IS AN EXPLANATION AND JUSTIFICATION OFTEN USED BY THE CHINESE. HOWEVER, DETERMINING THE INCIDENCE OF THE TAX BY WHETHER THE GOODS ARE PURCHASED FOB OR CIF, PUTS THE TAX IN A VERY DIFFERENT PERSPECTIVE THAN IS EVIDENT FROM THE OFFICIAL MINISTRY OF FINANCE ANNOUNCEMENT.

4. CONFIRMING THAT THE PRC MAY BE APPLYING THE TAX ON THE BASIS OF WHETHER THE GOODS ARE BOUGHT CIF OR FOB, RATHER THAN THE NATIONALITY OF THE CARRIER OR OF THE CHARTERER, AN OFFICIAL OF EAST ASIATIC COMPANY, WHICH LIMITED OFFICIAL USE

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HAS A REGULAR TWICE-MONTHLY CARGO SERVICE OUT OF SHANGHAI, SAID THAT THE TAX HAD NO EFFECT ON HIS COMPANY. HE SAID THAT PRC OFFICIALS OF THE CHINA OCEAN SHIPPING COMPANY HAD INFORMED THE COMPANY THAT IT IS EXEMPT FROM THE TAX. HE SAID THAT ALL OF THE GOODS CARRIED FROM THE PRC BY HIS COMPANY HAD BEEN SOLD CIF. AS FAR AS HE KNEW, DENMARK DOES NOT HAVE A BILATERAL SHIPPING AGREEMENT WITH THE PRC. HE ALSO KNEW OF ONE OTHER SHIPPING LINE

(A WEST GERMAN ONE) THAT IS NOT REQUIRED TO PAY THE TAX.

5. FOR STATE, COMMERCE AND CIA/OER. CONGEN WOULD APPRECIATE AVAILABLE INFORMATION ON HOW MANY AND WHICH OTHER COUNTRIES HAVE SHIPPING TRANSPORTATION TAXES SIMILAR TO THAT OF THE PRC. SHIPPING SOURCES IN HONG KONG ARE NOT IN AGREEMENT ON THIS SUBJECT. WE UNDERSTAND THE PHILIPPINES DOES HAVE A SIMILAR TAX, WHILE JAPAN DOES NOT (TOKYO 8938).
CROSS

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